

Plantation

Inventory Levels To Revert Towards Mean

Highlights

- We see limited downside to CPO prices moving into 1Q26, as palm stockpiles are expected to correct sharply over the next few months.
- For 2026, we continue to forecast a higher yoy CPO average price of RM4,400/tonne, underpinned by constructive supply-demand drivers – including Indonesia's planned rollout of its B50 biodiesel programme.
- Maintain OVERWEIGHT. Top picks: SD Guthrie, Hap Seng Plantations.

Analysis

- **Dec 25 end-stock expectation.** MPOB's statistics for Dec 25 (due 12 January) is anticipated to see palm oil end-stocks climb 6% mom to a seven-year high of 3m tonnes, according to Bloomberg consensus (Dec 24: 1.71m tonnes). This came as Intertek's Dec 25 survey reported an 8% mom export decline, while UOBKH's production survey separately indicated a 2-6% mom decline in output (implying an around 25% yoy growth vs Dec 24) – consistent with certain planters' views on a delayed production peak this cycle.
- **Inventory levels could correct sharply in 1Q26 given peak festivities and seasonal production trough.** While concerns of rising stockpiles amid unusually high CPO production over the recent months have weighed on CPO prices recently, we nonetheless expect prices to stabilise at the present RM4,000/tonne in the immediate term given that inventory levels have likely peaked and should moderate in the coming months when palm production enters the low seasonal period. Furthermore, the Southern Peninsula Palm Oil Millers' Association has estimated that early-Jan 25 fruit yields declined significantly by 35% mom; this may suggest that the production trend in certain regions have begun to regress to the mean, relative to previous months' outlier figures. At the same time, consumption demand is anticipated to be robust in 1Q26, supported by two major festivities which would converge around the same period this year – the Chinese New Year (Feb 26) as well as Hari Raya, which would also fall in 1Q this year (Mar 26). Given these, we believe the supply-demand situation may tighten up in 1Q26 and lead to an accelerated correction in palm oil inventories.
- **CPO exports remain competitive.** Meanwhile, CPO prices have stayed competitive against other vegoils despite the recent strengthening of the ringgit – currently still trading at a around US\$150/tonne discount to soybean oil (SBO). This should continue to help palm oil regain its export market share, as compared with early-25 when CPO's stiff price premiums led to a significant decline in import purchases from key buyers such as India and China.

OVERWEIGHT
(Maintained)

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Segmental Rating

Segment	Rating
Malaysia	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	HAPL MK	BUY	2.22	2.65
SD Guthrie	SDG MK	BUY	5.75	6.50

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/Tonne)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
2023	3,810
2024	4,180
2025	4,306

Our forecast:

2026F	4,400
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CPO Price:

MPOB @ 8 JAN 25	3,968
BMD 3 rd Month Contract	4,109

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 9 Jan 25 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2024A (x)	2025E (x)	2026E (x)	Yield 2025E (%)	ROE 2025E (%)	Market Cap. (RMm)	Price/ NAV ps (x)
Hap Seng Plantations	HAPL MK	BUY	2.17	2.65	22.1	Dec-25	8.5	9.4	8.9	5.3	10.1	1735.3	0.8
SD Guthrie	SDG MK	BUY	5.44	6.50	19.5	Dec-25	24.2	20.7	23.7	2.8	10.6	37621.5	1.8
Genting Plantations	GENP MK	HOLD	5.10	5.40	5.9	Dec-25	14.2	13.0	13.2	3.8	6.1	4575.5	0.9
IOI Corporation	IOI MK	BUY	4.07	4.45	9.3	Jun-26	19.4	18.8	17.6	2.7	12.7	25249.0	2.1
Kuala Lumpur Kepong	KLK MK	BUY	21.12	23.50	11.3	Sep-25	25.4	18.9	17.5	2.5	4.2	23520.5	1.6
Kim Loong	KIML MK	HOLD	2.33	2.25	(3.4)	Jan-26	14.1	14.0	14.3	7.0	18.5	2289.4	2.4
Sarawak Oil Palms	SOP MK	HOLD	3.76	3.15	(16.2)	Dec-25	7.5	7.8	7.9	2.4	12.2	3367.4	0.8

Source: Bloomberg, UOB Kay Hian

- Indonesia's production backdrop could be relatively more subdued.** In contrast to Malaysia's supply situation, Indonesia's palm production peaked relatively earlier in Jul 25 and has moderated since. In addition, its production growth also turned slight negative yoy in Sep-Oct 25 (-2% to -3% yoy), as opposed to the sharp rebound recorded during 8M15 (+13% yoy) which may indicate some supply weakness in the near term. Going forward, we also foresee downside risks to Indonesia's production outlook for 2026-27, due to its unresolved forestry permit issues and plantation land seizures (at least 11% of the country's 16m ha palm oil landbank) which could potentially disrupt the flow of harvesting and upkeep in numerous affected estates.
- Indonesia remains a key demand driver.** In the immediate term, the earlier onset of Raya festivities this year in 1Q26 is likely to cap Indonesia's exports availability – as the country strives to secure sufficient domestic supply during the festive period – which would be supportive of market CPO prices in the immediate term. This is also as Indonesia's own palm oil inventories (Oct 25: 2.3m tonnes) have notably fallen below that of Malaysia's, following the country's aggressive exports push last year. Over the longer run, we remain optimistic on the country's planned B50 biodiesel blending mandate in 2H26 which posits sizeable demand upside even under a partial implementation scenario for this year.
- Watching out for more potential policy changes.** Indonesia's officials have also recently announced that palm oil export levy rates may be raised further in order to fund the expanded B50 mandate – which could be another added positive for Malaysia's CPO price outlook and in turn Malaysian upstream planters. Having said that, should Indonesia's levy hikes result in an even wider tax differential between CPO and processed PO, this could pose negative implications for Malaysia's downstream operators, which are currently already contending with uncompetitive feedstock prices relative to their Indonesia counterparts.

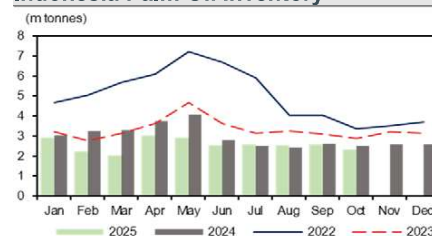
Valuation/Recommendation

- Maintain OVERWEIGHT.** We believe CPO prices would be well-supported at the current levels (RM4,000/tonne) and may gradually pick up over 1Q26 in tandem with a progressive correction in palm oil inventory levels. As end-stocks turn more balanced by 2Q26, we also foresee further price upside for CPO thereafter leading into Indonesia's planned 2H26 implementation of its B50 biodiesel mandate. Overall, we continue to forecast a higher average CPO price of RM4,400/tonne for 2026 (vs RM4,300/tonne in 2025), which, alongside continued FFB production growth is expected to translate into high single-digit sector earnings growth for 2026. For top picks, we prefer SD Guthrie (SDG MK/BUY/Target: RM6.50) and Hap Seng Plantations (HAPL MK/BUY/Target: RM2.65) which possess good leverage to higher CPO prices, whereby HAPL is also favoured for its attractive dividend yields and inexpensive valuations.

Sector Catalyst/Risk

- Weaker-than-expected industry output driving tighter inventories and higher CPO prices.
- Incremental demand from regional biofuel policy expansions.
- Improved downstream business outlook for vertically-integrated planters.

Indonesia Palm Oil Inventory



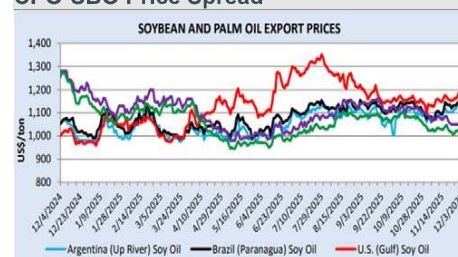
Source: MPOB, UOB Kay Hian

Indonesia Festivity Export Curbs



Source: MPOB, UOB Kay Hian

CPO-SBO Price Spread



Source: MPOB, UOB Kay Hian

Malaysia Palm Oil Production



Source: MPOB, UOB Kay Hian

Malaysia Palm Oil Stocks



Source: MPOB, UOB Kay Hian

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